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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 004164

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TAGS: [EINV](#) [ETTC](#) [ECON](#) [PREL](#) [CH](#) [TW](#)
SUBJECT: CROSS-STRAIT INVESTMENT - ACTIVE MANAGEMENT AND
EFFECTIVE OPENING FOR SEMICONDUCTORS

REF: A. TAIPEI 980

- [1](#)B. TAIPEI 2919
- [1](#)C. TAIPEI 3926
- [1](#)D. TAIPEI 4095

Classified By: AIT Economic Section Chief Daniel K. Moore, Reason 1.4 d

[1](#)1. (SBU) Summary: On December 14, 2006, Taiwan's Ministry of Economic Affairs (MOEA) announced a new, more rigorous approval process for major investment projects in the PRC. Major projects will be subject to review by a senior-level interagency taskforce. In addition, potential investors will be required to provide more information about the proposals and make commitments for counterbalancing investment in Taiwan. Just four days later, MOEA announced the approval of politically sensitive semiconductor investment applications, two of which had languished in the approval process for two years. The new procedures appear to have given the administration political cover to approve these and other sensitive cases. MOEA reiterated statements that it would be able to approve semiconductor manufacturing investment using more advanced 0.18-micron technology by the end of the year. Such a move would more effectively demonstrate the administration's willingness to liberalize cross-Straits restrictions. End summary.

New PRC Investment "Active Management" Procedures

[1](#)2. (U) On December 14, 2006, Taiwan's Ministry of Economic Affairs Investment Commission (MOEA/IC) announced new review procedures for applications from Taiwan firms wishing to make large or technologically-sensitive investments in the PRC. The revised procedures are intended to make the review process more rigorous, enhance coordination with investors, and secure commitments for counter-balancing investment in Taiwan. MOEA officials have emphasized that the new mechanisms are part of the "active management, effective opening" policy announced by the Executive Yuan in March 2006. A Mainland Affairs Council (MAC) contact explained that many of the changes are similar to special requirements imposed on semiconductor manufacturing investment when that was first liberalized in 2002.

Who Must Comply?

¶3. (U) The new regulations will apply to large-scale investment projects and any investment in certain high-technology industries. Large-scale investments are defined by the new procedures as:

- individual investment proposals valued at more than US\$100 million;
- individual investment proposals over US\$60 million when the firm's cumulative investment in the PRC is valued at more than US\$200 million.

High-tech industry investment subject to the new rules are:

- semiconductor chip manufacturing;
- integrated circuit (IC) packaging and testing;
- thin-film-transistor liquid crystal display (TFT-LCD) panel manufacturing.

Inter-Agency Review Task Force

¶4. (U) According to MOEA/IC, a senior-level interagency taskforce will review applications for major investment projects in the Mainland. A representative of the firm submitting the application will have to appear before the task force. The taskforce will be chaired by the Minister of Economic Affairs and will include representatives from the Council for Economic Planning and Development (CEPD), MAC, Council of Labor Affairs (CLA), Financial Supervisory Commission, and the Central

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Bank of China. Other agencies will be invited as necessary. At the first taskforce meeting on December 18, MOEA, CEPD, MAC, and CLA were all represented by Ministers or Chairmen.

More Information and Commitments Required

¶5. (U) Under the new procedures, investors will need to submit more detailed information about their global strategy and investment plans. They will also have to provide estimates of the impact on Taiwan's domestic economy, including employment. Some will be required to make commitments to invest in Taiwan to ensure the domestic economy benefits overall. In addition, investors will have to agree to auditing mechanisms using private firms and government agencies to monitor the investment project.

Long Wait is Over for Semiconductor Investors

¶6. (U) On December 18, MOEA announced that it had approved applications from Powerchip Semiconductor Corp. and ProMOS Technologies to build semiconductor manufacturing facilities in the PRC. The two firms separately submitted their applications to invest in the PRC in December 2004, but until this week, neither had received a formal reply from MOEA. These were the first cases approved under the new procedures. The two firms will be allowed to build factories producing 8-inch semiconductor wafers using 0.25-micron technology. Powerchip and ProMOS are dynamic random access memory (DRAM) manufacturers. ProMOS plans to build a plant in Chongqing. Powerchip will build in Suzhou. MOEA officials reiterated assurances that the Ministry will likely announce regulations permitting investment using 0.18-micron technology by the end of the year.

17. (C) MOEA also announced that it would approve the application of Advanced Semiconductor Engineering (ASE), Taiwan's largest integrated circuit (IC) packaging and testing company, to buy Global Packaging Advanced Technologies (GPAT), a packaging and testing firm based near Shanghai. The approval is tentative pending the submission of additional documentation next week. The ASE application has attracted attention recently due in part to the offer by Carlyle Group, a U.S. investment firm, to buy ASE (ref D). Many have speculated that the Carlyle-ASE deal is intended to help ASE escape Taiwan's restrictions on investment in the Mainland. (Note: ASE Chief of Staff Jeffery Chen, who negotiated the ASE-Carlyle deal, told AIT last week that ASE is under heavy pressure from the Taiwan government to reject Carlyle's offer. When asked if ASE is pursuing the Carlyle acquisition to circumvent Taiwan investment restrictions, Chen said "we have been instructed to respond no" with a caustic laugh. End note.) Taiwan first announced that it would permit investment in packaging and testing in April 2006, but prior to the ASE-GPAT announcement no applications had been approved.

18. (C) Minister of Economic Affairs Steve Chen (Ruey-long) told Assistant U.S. Trade Representative Tim Stratford and AIT/T on December 19 he had approved the semiconductor investment projects the day before. Asked if he expected political criticism over the decision, he said there would not be too much because he and his ministry had worked hard in advance to consult with those opposed to allowing Taiwan hi-tech companies to operate in China. He said the opponents got some "consolation," but did not specify what that consolation might be. On the same day, Democratic Progressive Party (DPP) Chairman Yu Shyi-kun publicly complained the Government was making it too easy for Taiwan hi-tech firms to go to China and the pro-independence Taiwan Solidarity Union (TSU) also criticized the decision. (Comment: Chairman Yu's comments are generally seen as driven by a desire to

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display himself as different from Premier Su Tseng-cheng as both are considered contenders to be the DPP presidential nominee for the March 2008 elections.)

Effective Opening or Just More Management?

19. (SBU) Comment continued: Some businessmen may complain that the new investment review procedures will make it more difficult and time consuming to invest in the PRC. The overall effect of the new procedures on cross-strait investment will depend on how they are implemented by the Taiwan authorities. The almost simultaneous approvals of the Powerchip, ProMOS, and ASE applications suggest that the Chen administration may finally be fulfilling assurances that "active management" mechanisms would be accompanied by the lifting of some cross-strait economic restrictions. The new mechanisms may give the administration the political cover it needs to approve more sensitive investment. Approval of semiconductor manufacturing investment using more advanced 0.18-micron technology, however, would more effectively demonstrate the administration's willingness to move forward on cross-strait economic liberalization. End comment.
WANG